

Financial Statements

City of Ithaca

**Ithaca, Michigan
June 30, 2006**



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ITHACA	County GRATIOT
Fiscal Year End 6-30-06	Opinion Date 9-7-06	Date Audit Report Submitted to State 10-26-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

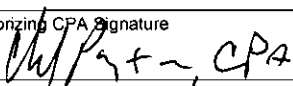
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	No other reports required		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number 989-463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name CHAD R. PAYTON, CPA		License Number 21946

City of Ithaca
June 30, 2006

CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis I - IV

Basic Financial Statements:

Government -wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Governmental Funds Balance Sheet	3
----------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
-----------------------------------------------------------------------------------------------------------------------------------------------------------	---

Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	5
-------------------------------------------------------------------------------------	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
---------------------------------------------------------------------------------------------------------------------------------------------------	---

Statement of Net Assets – Proprietary Funds	7
---------------------------------------------	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	8
---------------------------------------------------------------------------------------	---

Statement of Cash Flows – Proprietary Funds	9
---------------------------------------------	---

Fiduciary Fund:

Fiduciary Funds – Statement of Net Assets	10
-------------------------------------------	----

Component Units:

Statement of Net Assets – Component Units	11
-------------------------------------------	----

Statement of Activities – Component Units	12
-------------------------------------------	----

Notes to Financial Statements	13 - 28
-------------------------------	---------

City of Ithaca
June 30, 2006

CONTENTS (CONTINUED)

Required Supplementary Information:

Budgetary Comparison Schedules	29 - 35
--------------------------------	---------

Other Supplementary Information:

Combining Balance Sheet – Non-Major Governmental Funds	36 - 37
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Non-Major Governmental Funds	38 - 39
Government Auditing Standards Report	40 - 41



INDEPENDENT AUDITOR'S REPORT

City Council
City of Ithaca
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on pages 29-35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P.C.
Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 7, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

Management Discussion and Analysis

As management of the City of Ithaca (the "City"), we offer readers of the City's financial statements, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2006. The management's discussion and analysis (MD&A) is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

- The net assets of the City are the amount by which the City's assets exceeded its liabilities. At June 30, 2006, net assets of the primary government totaled \$9,317,269. The unrestricted portion of this amount, \$3,308,108 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$246,556. This increase resulted from an increase in net assets of the business activities of \$159,379 and an increase in net assets of governmental activities by \$87,177. The increases, though slight, were achieved by careful spending in a struggling economy for the State of Michigan.
- At June 30, 2006, the City's governmental funds reported combined ending fund balances of \$1,178,294. This is an increase of \$51,539 from the prior year. Of the total fund balance for governmental funds \$1,155,070 is available for spending at the government's discretion (unreserved fund balance). It has been stated that the State of Michigan is in a very poor economic state, currently ranking 49th in unemployment, which has a direct effect on local economies. Revenue sharing thus was frozen at last year's rate, which although was not a true cut, is treated the same because of inflationary increases. Looking at the financial statements for the City, revenue sharing received from the State of Michigan appears to be increased from last year. The reader should be made aware that when revenue sharing is received from the State of Michigan, it is received two months in arrears, thus June's payment is received in August, or depending on mail, the first of September. Because of this methodology, a June payment was received too late and not recorded to the appropriate year in years past, therefore, an extra payment has been recognized on these financial statements in order to stop the fall over. In 2006, the City began using the State's new direct deposit of revenue sharing funds and payments are now received 5-7 days earlier than before, assuring June's payment will be received in August.

- The City's long-term debt consisted of Water Customer Deposits and General Obligation Bonds in the Business Activities, Debt for a Fire Truck and Rescue Vehicle in the non-major governmental activities.
- A schedule of the City's long-term obligations can be found in the notes to financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets, library, cemetery, and economic development. The major business-type activities of the City include the Water Supply System and Sewage Disposal System.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority for which the City is financially accountable. The Downtown Development Authority is a separate authority and financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven major and ten non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue and capital project funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the combining statements section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Budget comparison statements have also been provided for the other major funds. These can be found in the required supplementary information section of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System and Sewage Disposal System. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Equipment and Material Funds. The services of the Equipment and Material predominantly benefit governmental rather than business-type functions, and have been included in their entirety within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its Trust and Agency funds (i.e. property taxes due to other taxing agencies).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB statement 34 regarding the City's budgetary comparison of the general fund and four major special revenue funds. This supplementary information is contained behind its own tab following the footnotes to financial statements.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

City of Ithaca
Government Wide Statement of Net Assets
June 30, 2006

	PRIMARY GOVERNMENT			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and cash equivalents	\$1,230,295	\$1,167,651	\$2,397,946	\$92,112
Property taxes receivable	802,609	-	802,609	16,195
Other receivables - net	59,160	122,400	181,560	-
Due from other governments	139,228	-	139,228	-
Internal balances - net	2,009	(9)	2,000	-
Inventories	-	31,227	31,227	-
Notes receivable - net	176,650	-	176,650	-
Capital assets - net	<u>1,567,115</u>	<u>4,236,506</u>	<u>5,803,621</u>	-
Total assets	<u>3,977,066</u>	<u>5,557,775</u>	<u>9,534,841</u>	<u>108,307</u>
LIABILITIES				
Accounts payable	50,325	5,613	55,938	2,058
Accrued and other liabilities	28,780	4,220	33,000	-
Noncurrent liabilities				
Due within one year	14,936	-	14,936	-
Due in more than one year	<u>100,643</u>	<u>13,055</u>	<u>113,698</u>	-
Total liabilities	<u>194,684</u>	<u>22,888</u>	<u>217,572</u>	<u>2,058</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,567,115	4,236,506	5,803,621	-
Restricted for				
Streets and highways	182,316	-	182,316	-
Perpetual care	23,224	-	23,224	-
Unrestricted	<u>2,009,727</u>	<u>1,298,381</u>	<u>3,308,108</u>	<u>106,249</u>
Total net assets	<u>\$3,782,382</u>	<u>\$5,534,887</u>	<u>\$9,317,269</u>	<u>\$106,249</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Government Wide Statement of Activities
For The Year Ended June 30, 2006

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units
				Governmental Activities	Business-Type Activities	
Primary Government						
General government	\$708,546	\$68,782	\$28,500	(\$611,264)	-	-
Public safety	594,360	117,291	45,706	(431,363)	-	-
Public works	395,700	-	290,052	(105,648)	-	-
Recreation and cultural	263,390	2,697	133,557	(127,136)	-	-
Interest on long-term debt	2,779	-	-	(2,779)	-	-
Total governmental activities	1,964,775	188,770	497,815	(1,278,190)	-	-
Business type activities						
Water and Sewer	408,887	526,618	-	-	\$117,721	-
Total primary government	\$2,373,672	\$715,388	\$497,815	(1,278,190)	117,721	-
Component units						
Downtown development authority	\$29,602	-	-	-	-	(\$29,602)
General Revenues						
Property taxes				858,696	7,241	865,937
State-shared revenues				362,799	184	362,983
Unrestricted investment earnings				63,538	34,233	97,771
Transfers				-	-	-
Miscellaneous				80,334	-	80,334
Total general revenues				1,365,367	41,658	1,407,025
Change in net assets				87,177	159,379	246,556
Net assets - July 1				3,695,205	5,375,508	9,070,713
Net assets - June 30				\$3,782,382	\$5,534,887	\$9,317,269

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

City of Ithaca
Governmental Funds Balance Sheet
June 30, 2006

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$345,883	\$107,314	\$25,402	\$108,024	\$29,819	\$34,366	\$221,247	\$180,985	\$1,053,040
Accounts receivables - net	41,044	-	-	-	-	17,927	-	-	58,971
Notes receivable	-	-	-	-	176,650	-	-	-	176,650
Due from other funds	2,111	-	-	-	-	-	10,764	-	12,875
Due from other governments	70,915	50,038	10,026	3,151	-	-	-	5,098	139,228
Total assets	<u>\$459,953</u>	<u>\$157,352</u>	<u>\$35,428</u>	<u>\$111,175</u>	<u>\$206,469</u>	<u>\$52,293</u>	<u>\$232,011</u>	<u>\$186,083</u>	<u>\$1,440,764</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$27,486	\$3,019	\$4,252	\$4,820	-	\$4,873	-	\$2,655	\$47,105
Accrued liabilities	20,009	2,095	1,047	3,092	-	423	-	1,234	27,900
Due to other funds	-	-	51	-	-	-	-	10,764	10,815
Deferred revenue	-	-	-	-	\$176,650	-	-	-	176,650
Total liabilities	<u>47,495</u>	<u>5,114</u>	<u>5,350</u>	<u>7,912</u>	<u>176,650</u>	<u>5,296</u>	<u>-</u>	<u>14,653</u>	<u>262,470</u>
Fund balances									
Reserved for perpetual care	-	-	-	-	-	-	-	23,224	23,224
Unreserved, undesignated, reported in:									
General fund	412,458	-	-	-	-	-	-	-	412,458
Special revenue funds	-	152,238	30,078	103,263	29,819	46,997	\$232,011	148,206	742,612
Total fund balances	<u>412,458</u>	<u>152,238</u>	<u>30,078</u>	<u>103,263</u>	<u>29,819</u>	<u>46,997</u>	<u>232,011</u>	<u>171,430</u>	<u>1,178,294</u>
Total liabilities and fund balances	<u>\$459,953</u>	<u>\$157,352</u>	<u>\$35,428</u>	<u>\$111,175</u>	<u>\$206,469</u>	<u>\$52,293</u>	<u>\$232,011</u>	<u>\$186,083</u>	<u>\$1,440,764</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended June 30, 2006

Total fund balance - governmental funds	\$1,178,294
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,643,224
Deduct: accumulated depreciation	(2,392,088)
Internal service funds are used by management to charge the cost of equipment and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	489,272
Property tax revenue that was earned and accrued in the current period but not available is only recognized as revenues in the government wide financial statements .	802,609
Deferred revenues reported in governmental funds balance sheet includes balance of loans receivable. The balance was deferred because funds were not available to pay for current-period expenditures.	176,650
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(47,459)
Deduct: Compensated absences	(68,120)
Net assets of governmental activities	<u>\$3,782,382</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes and penalties	\$812,608	-	-	-	-	-	-	-	\$812,608
Licenses and permits	44,195	-	-	-	-	-	-	-	44,195
Federal grants	-	-	-	-	-	\$42,706	-	-	42,706
State grants	432,767	\$229,336	\$60,716	\$6,278	-	3,000	-	-	732,117
Contribution from local units	28,500	-	-	-	-	-	-	-	28,500
Charges for services	-	-	-	2,697	-	88,485	-	\$53,393	144,575
Fines and forfeits	-	-	-	127,279	-	-	-	-	127,279
Interest and rentals	34,160	4,805	285	8,790	\$225	1,933	\$4,543	4,011	58,752
Other revenues	67,575	-	1,210	3,865	1,650	6,214	-	1,470	81,984
Total revenues	1,419,825	234,141	62,211	148,909	1,875	142,338	4,543	58,874	2,072,716
Expenditures									
Current									
General government	626,203	-	-	-	3,500	-	-	55,431	685,134
Public safety	370,139	-	-	-	-	130,205	-	47,933	548,277
Public works	63,816	151,001	180,883	-	-	-	-	-	395,700
Recreation and cultural	84,427	-	-	172,567	-	-	-	-	256,994
Other	18	-	-	-	-	-	-	-	18
Capital outlay	82,240	-	-	-	-	35,905	-	-	118,145
Debt service	-	-	-	-	-	-	-	16,909	16,909
Total expenditures	1,226,843	151,001	180,883	172,567	3,500	166,110	-	120,273	2,021,177
Excess of revenues over (under) expenditures	192,982	83,140	(118,672)	(23,658)	(1,625)	(23,772)	4,543	(61,399)	51,539
Other financing sources (uses)									
Transfers in	3,498	-	119,327	-	-	55,803	-	116,312	294,940
Transfers out	(134,441)	(105,994)	-	-	-	(36,909)	-	(17,596)	(294,940)
Total other financing sources (uses)	(130,943)	(105,994)	119,327	-	-	18,894	-	98,716	-
Excess of revenues and other sources over (under) expenditures and other uses	62,039	(22,854)	655	(23,658)	(1,625)	(4,878)	4,543	37,317	51,539
Fund Balance, July 1	350,419	175,092	29,423	126,921	31,444	51,875	227,468	134,113	1,126,755
Fund Balance, June 30	\$412,458	\$152,238	\$30,078	\$103,263	\$29,819	\$46,997	\$232,011	\$171,430	\$1,178,294

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$51,539
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	118,145
Deduct: depreciation expense	(104,204)
Disposal of fixed assets	
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year-end.	(25,550)
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	1,174
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	14,130
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrual for compensated absences	<u>31,943</u>
Change in net assets of governmental activities	<u><u>\$87,177</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Assets	Water and Sewer	
Current assets		
Cash and cash equivalents	\$1,167,651	\$177,255
Trade accounts receivable	122,400	189
Due from other funds	-	-
Inventory of supplies, at cost	31,227	-
Total current assets	<u>1,321,278</u>	<u>177,444</u>
Capital assets		
Water and sewer system		
Machinery and equipment	6,166,419	1,033,792
Less: accumulated depreciation	<u>(1,929,913)</u>	<u>(717,813)</u>
Net capital assets	<u>4,236,506</u>	<u>315,979</u>
Total assets	<u>5,557,784</u>	<u>493,423</u>
Liabilities		
Current liabilities		
Accounts payable	5,613	3,220
Accrued payroll and payroll taxes	4,220	880
Due to other funds	9	51
Current portion of bonds	-	-
Less: deferred loss on refunding	<u>-</u>	<u>-</u>
Total current liabilities	<u>9,842</u>	<u>4,151</u>
Long-term liabilities		
Customer deposits	<u>13,055</u>	<u>-</u>
Net long-term liabilities	<u>13,055</u>	<u>-</u>
Total liabilities	<u>22,897</u>	<u>4,151</u>
Net assets		
Invested in capital assets, net of related debt	4,236,506	315,979
Unreserved	<u>1,298,381</u>	<u>173,293</u>
Total net assets	<u><u>\$5,534,887</u></u>	<u><u>\$489,272</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Operating revenues		
Water and sewer sales	\$510,084	-
Penalties and interest charges	9,186	-
Installation and other charges	4,445	\$297
Service charges	2,903	204,793
Property taxes	7,241	-
Total operating revenues	<u>533,859</u>	<u>205,090</u>
Operating expenses		
Personal services	140,755	22,168
Contractual services	59,339	1,410
Utilities	1,882	7,820
Repairs and maintenance	3,206	18,373
Other supplies and expenses	91,003	74,962
Depreciation	100,287	85,243
Total operating expenses	<u>396,472</u>	<u>209,976</u>
Operating income (loss)	<u>137,387</u>	<u>(4,886)</u>
Nonoperating revenues (expenses)		
Interest revenue	34,233	4,786
Gain on sale of fixed assets	-	1,274
State sources	184	-
Interest expense	(12,425)	-
Total nonoperating revenues (expenses)	<u>21,992</u>	<u>6,060</u>
Income before contributions and transfers out	159,379	1,174
Transfers	<u>-</u>	<u>-</u>
Change in net assets	159,379	1,174
Total net assets, as of July 1	<u>5,375,508</u>	<u>488,098</u>
Total net assets, as of June 30	<u><u>\$5,534,887</u></u>	<u><u>\$489,272</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Cash flows from operating activities		
Receipts from customers	\$538,213	\$228,407
Payments to suppliers / outsiders	(164,710)	(106,938)
Payments to employees	(141,309)	(21,873)
Internal activity - receipts from other funds	9	51
Other receipts - taxes	210,903	-
Net cash provided by operating activities	443,106	99,647
Cash flows from noncapital financing activities		
Transfers from other funds	-	-
Grants received	184	-
Net cash provided by noncapital financing activities	184	-
Cash flows from capital and related financing activities		
Purchases of capital assets	(12,968)	(44,514)
Sale of capital assets	-	10,651
Principal and interest paid on capital debt	(204,750)	-
Net cash used in capital and related financing activities	(217,718)	(33,863)
Cash flows from investing activities		
Interest revenue	34,233	4,786
Net increase (decrease) in cash and cash equivalents	259,805	70,570
Cash and cash equivalents, July 1	907,846	106,685
Cash and cash equivalents, June 30	<u>\$1,167,651</u>	<u>\$177,255</u>
Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities		
Operating income (loss)	\$137,387	(\$4,886)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	100,287	85,243
Change in assets and liabilities		
Receivables - net	214,227	23,317
Inventories	5,926	-
Accounts and other payables	(14,721)	(4,027)
Net cash provided by operating activities	<u>\$443,106</u>	<u>\$99,647</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Fiduciary Funds
Statement of Net Assets
June 30, 2006

	<u>Agency Fund</u>
Assets	
Cash and equivalents	<u>\$8,954</u>
Total assets	<u><u>\$8,954</u></u>
Liabilities	
Accounts payable	\$6,954
Due to other funds	<u>2,000</u>
Total liabilities	<u><u>\$8,954</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Component Units
June 30, 2006

	<u>Downtown Development Authority</u>
ASSETS	
Cash and cash equivalents	\$92,112
Property taxes receivable	<u>16,195</u>
Total assets	<u>108,307</u>
 LIABILITIES	
Accounts payable	2,058
 NET ASSETS	
Unrestricted	<u>106,249</u>
Total net assets	<u><u>\$106,249</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities - Component Units
For the Year Ended June 30, 2006

Functions / Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants
Downtown Development Authority			
General government	\$29,602	-	-
			(\$29,602)
General Revenues			
Property taxes			25,936
Unrestricted interest and investment earnings			1,992
Miscellaneous			800
			<u>28,728</u>
Total general revenues			
			(874)
Change in net assets			
Net assets, July 1			<u>107,123</u>
Net assets, June 30			<u><u>\$106,249</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

City of Ithaca
Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Ithaca (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City of Ithaca, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Downtown Development Authority - The Ithaca Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of eleven individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City's Council. The City is financially accountable for the Downtown Development Authority's activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Ithaca
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

City of Ithaca
Notes to Financial Statements

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the City as a trustee or agency capacity on behalf of others and, therefore, are not available to support City operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City's operations. The City currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state revenue sharing revenues that are restricted for use on local streets.

The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The Economic Development Fund accounts for resources used to promote economic development of the City.

City of Ithaca
Notes to Financial Statements

The Fire Fund accounts for resources used to provide fire services to residents of the City of Ithaca and surrounding townships.

The Gibbs Memorial Fund accounts for resources to fund special projects.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Taxes

The City's property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

Although the City's 2005 ad valorem tax is levied and collectible on December 1st, 2005, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the City totaled \$52.9 million, on which ad valorem taxes levied consisted of 14.2748 mills for operating purposes and 1.472 mills for emergency service, raising \$686 thousand for operating purposes, and \$71 thousand for emergency services. These amounts are recognized in the general fund as tax revenues.

City of Ithaca
Notes to Financial Statements

Receivables and Payables

In general, outstanding balances between funds are reported as “due to / from other funds”. Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to / from other funds”. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Operating Equipment	3 – 20
Computer Equipment	3 – 5
Vehicles	7-10
Buildings and Improvements	20-50
Land	Not Applicable – Not Depreciated

City of Ithaca
Notes to Financial Statements

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal

City of Ithaca
Notes to Financial Statements

year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The City does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances, on pages 29 – 35.

NOTE 3 – DETAIL NOTES

Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorized the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

City of Ithaca
Notes to Financial Statements

The City has designated six banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

The City's deposits and investment policy are in accordance with statutory authority.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and equivalents	\$1,230,295	\$1,167,651	\$8,954	\$2,397,946	\$92,112
Total	\$1,230,295	\$1,167,651	\$8,954	\$2,397,946	\$92,112

The bank balance of the primary government's deposits is \$2,446,431, of which \$500,000 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$91,852 of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

City of Ithaca
Notes to Financial Statements

Receivables

Receivables as of year-end for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Library Fund	Fire Operating Fund	Non-Major and other funds	Total
Accounts	\$23,444	\$-	\$	\$	\$17,927	\$	\$41,371
Sale of Westwind Estates	17,600	-	-	-	-	-	17,600
Intergovernmental	70,915	50,038	10,026	3,151	-	5,098	139,228
Water and Sewer Billings	-	-	-	-	-	-	-
Equipment Rental Billings	-	-	-	-	-	-	-
Total	\$111,959	\$50,038	\$10,026	\$3,151	\$17,927	\$5,098	\$198,199

Additionally, the economic development fund reports \$176,650 of notes receivable as of June 30th.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of deferred revenue are as follows:

	Unavailable	Unearned
Note receivable	\$176,650	\$-

Interfund Receivables, Payables and Transfers - The composition of interfund balances is as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$2,111	\$-
Agency	-	2,000
Local Street	-	51
Gibbs Memorial	10,764	-
First Responder	-	10,764
Equipment	-	51
Water/Sewer	-	9
Totals	\$12,875	\$12,875

City of Ithaca
Notes to Financial Statements

Transfers between funds during the year were as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Fire Operating	General	\$55,803
Cemetery Operating		35,500
First Responder		29,805
Local Street		13,333
Sub-total		134,441
General	Woodland Park	3,498
Local Street	Major Street	105,994
Cemetery Operating	Cemetery Perpetual Care	598
	Cemetery Sinking	10,000
Sub-total		10,598
Fire / Rescue Sinking	Fire Operating	36,909
	First Responder	3,500
Sub-total		40,409
Total Interfund Transfers		\$294,940

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the major street fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the local street fund. The cemetery fund transfers are used to provide resources for cemetery operations. The first responder / fire and rescue sinking fund transfers are used to provide resources for fire operations and debt service payments.

City of Ithaca
Notes to Financial Statements

Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Land	\$144,758	\$10,000	\$-	\$154,758
Buildings	1,597,901	-	-	1,597,901
Equipment and Vehicles	2,813,815	152,659	12,502	2,953,972
Subtotal	4,556,474	162,659	12,502	4,706,631
Less Accumulated Depreciation	2,953,194	189,447	3,125	3,139,516
Net Capital Assets Being Depreciated	1,458,522			1,412,357
Governmental Activities Total Capital Assets – Net of Depreciation	\$1,603,280			\$1,567,115

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities				
Land	\$14,432	\$-	\$-	\$14,432
Water & Sewer System	6,139,019	12,968	-	6,151,987
Subtotal	6,153,451	12,968	-	6,166,419
Less Accumulated Depreciation				
Water & Sewer System	1,829,626	100,287	-	1,929,913
Net Capital Assets Being Depreciated	4,309,393			4,222,074
Business-Type Activities Total Capital Assets – Net of Depreciation	\$4,323,825			\$4,236,506

City of Ithaca
Notes to Financial Statements

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$51,725
Public Safety	46,083
Recreation and Culture	6,396
Internal Service Fund	85,243
Total Governmental Activities	189,447
Business-Type Activities	
Water and Sewer	100,287
Total Business-Type Activities	100,287

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

Long-Term Debt

The City's long-term debt as of June 30, 2006 is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 15, and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees, and 44 days for police officers, are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at June 30, 2006 and 2005 was \$27,305 and \$36,930, respectively.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay will be paid to the employee, depending on their date of hire. Sick leave pay liability at June 30, 2006 and 2005 was \$40,815 and \$63,134, respectively.

City of Ithaca
Notes to Financial Statements

Note Payable - Note Payable, due in annual installments of \$16,909 through October 2008. Interest is at 4.46% per annum. As of June 30, 2006 and 2005, the balance of this note payable is \$47,459 and \$61,588, respectively.

Debt balances and transactions for the year ended June 30, 2006 are as follows for this note payable:

	Balance 7-1-2005	Additions	Retirements	Balance 6-30-2006	Due Within One Year
Fire Truck Note Payable	\$61,588	\$-	(\$14,129)	\$47,459	\$14,936

Enterprise Fund Bonds

Bonds payable at June 30, 2006 consist of the \$1,710,000 Water Supply and Sewage Disposal Refunding Bonds due in annual installments of \$170,000 to \$210,000 through November 2005. Interest is at annual rates of 4.7% to 4.75%. The bond proceeds were used to improve and extend the City's Water and Wastewater System.

Debt balances and transactions for the year ended June 30, 2006 are as follows for the enterprise fund bonds:

	Balance 7-1-2005	Additions	Retirements	Balance 6-30-2006	Due Within One Year
Refunding Bonds	\$200,000	\$-	\$(200,000)	\$-	\$-
Deferred Amount on Refunding	(7,675)	-	7,675	-	-
Total	\$192,325	\$-	\$(192,325)	\$-	\$-

Refunding of Debt

On December 18, 1996, the City advance refunded the 1986 Water Supply and Sewage Disposal bonds. An accounting loss of \$138,146 was recorded as a deferred asset because the principal of refunding bonds is greater than that of the refunded bonds. The deferred asset was amortized as interest expense over the remaining life of the bond, which amounted to \$15,350 per year, for a total of 9 years.

City of Ithaca
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2007	14,936	1,973
2008	15,802	1,107
2009	16,721	188
2010	-	-
Total	\$47,459	\$3,268

Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employee Retirement and Benefit Systems

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the City's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2005. The City's payroll for the employees covered by the system for the year ended December 31, 2005 was \$596,323.

City of Ithaca
Notes to Financial Statements

As of December 31, 2005, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	10
Active plan participants – vested	16
Vested former members	5
Total	31

Funding Policy

Under the provisions of this plan, members contribute between 3% and 5% of annual compensation. If a member leaves the municipality, or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

City of Ithaca
Notes to Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2005, the assets were less than the pension benefit obligation by \$501,026, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$1,082,056
Terminated employees not yet receiving benefits	211,419
Current Employees:	
Accumulated employee contributions including Allocated investment income	463,692
Employer financed	1,408,146
Total actuarial accrued liability	3,165,313
Net assets available for benefits at actuarial value (market = \$2,594,081)	2,664,287
Unfunded actuarial accrued liability	\$501,026
GASB 27 Information	
Fiscal Year Beginning	July 1, 2007
Annual Required Contribution (ARC)	\$59,736
Amortization factor used – under-funded liabilities (30 years)	.053632

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-03	\$2,351,314	\$2,925,371	\$(574,057)	80%	\$584,822	98%
12-31-04	2,509,197	3,076,357	(567,160)	82%	627,143	90%
12-31-05	2,664,287	3,165,313	(501,026)	84%	596,323	84%

REQUIRED SUPPLEMENTARY INFORMATION

City of Ithaca
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes and penalties	\$818,950	\$819,908	\$812,608	(\$7,300)
Licenses and permits	38,700	38,700	44,195	5,495
State grants	349,231	361,872	432,787	70,915
Contribution from local units	-	28,500	28,500	-
Interest and rentals	19,900	27,400	34,160	6,760
Other revenues	<u>72,400</u>	<u>64,876</u>	<u>67,575</u>	<u>2,699</u>
Total revenues	1,299,181	1,341,256	1,419,825	78,569
Expenditures				
Current				
General government	631,610	640,410	626,203	14,207
Public safety	321,640	383,740	370,139	13,601
Public works	92,100	62,361	63,816	(1,455)
Recreation and cultural	106,405	106,405	84,427	21,978
Other	-	-	18	(18)
Capital outlay	<u>3,500</u>	<u>76,600</u>	<u>82,240</u>	<u>(5,640)</u>
Total expenditures	<u>1,155,255</u>	<u>1,269,516</u>	<u>1,226,843</u>	<u>42,673</u>
Excess of revenues over (under) expenditures	143,926	71,740	192,982	121,242
Other financing sources (uses)				
Transfers in	3,498	3,498	3,498	-
Transfers out	<u>(134,441)</u>	<u>(134,441)</u>	<u>(134,441)</u>	<u>-</u>
Total other financing sources (uses)	<u>(130,943)</u>	<u>(130,943)</u>	<u>(130,943)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	12,983	(59,203)	62,039	121,242
Fund Balance, July 1	<u>350,419</u>	<u>350,419</u>	<u>350,419</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$363,402</u></u>	<u><u>\$291,216</u></u>	<u><u>\$412,458</u></u>	<u><u>\$121,242</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Major Street Fund
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants	\$227,891	\$227,891	\$229,336	\$1,445
Interest and rentals	500	500	4,805	4,305
Total revenues	228,391	228,391	234,141	5,750
Expenditures				
Current				
Public works	190,316	190,316	151,001	39,315
Total expenditures	190,316	190,316	151,001	39,315
Excess of revenues over (under) expenditures	38,075	38,075	83,140	45,065
Other financing sources (uses)				
Transfers out	(100,682)	(110,682)	(105,994)	4,688
Total other financing sources (uses)	(100,682)	(110,682)	(105,994)	4,688
Excess of revenues and other sources over (under) expenditures and other uses	(62,607)	(72,607)	(22,854)	49,753
Fund Balance, July 1	175,092	175,092	175,092	-
Fund Balance, June 30	<u>\$112,485</u>	<u>\$102,485</u>	<u>\$152,238</u>	<u>\$49,753</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Local Street Fund
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants	\$64,639	\$64,639	\$60,716	(\$3,923)
Interest and rentals	300	300	285	(15)
Other revenues	<u>16,667</u>	<u>16,667</u>	<u>1,210</u>	<u>(15,457)</u>
Total revenues	81,606	81,606	62,211	(19,395)
Expenditures				
Current				
Public works	<u>205,621</u>	<u>205,621</u>	<u>180,883</u>	<u>24,738</u>
Total expenditures	<u>205,621</u>	<u>205,621</u>	<u>180,883</u>	<u>24,738</u>
Excess of revenues over (under) expenditures	(124,015)	(124,015)	(118,672)	5,343
Other financing sources (uses)				
Transfers in	<u>124,015</u>	<u>124,015</u>	<u>119,327</u>	<u>(4,688)</u>
Total other financing sources (uses)	<u>124,015</u>	<u>124,015</u>	<u>119,327</u>	<u>(4,688)</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	-	655	655
Fund Balance, July 1	<u>29,423</u>	<u>29,423</u>	<u>29,423</u>	-
Fund Balance, June 30	<u><u>\$29,423</u></u>	<u><u>\$29,423</u></u>	<u><u>\$30,078</u></u>	<u><u>\$655</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Library Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State sources	\$7,600	\$7,600	\$6,278	(\$1,322)
Charges for services	2,500	2,100	2,697	597
Fines and forfeits	109,000	126,778	127,279	501
Interest and rentals	5,300	6,600	8,790	2,190
Other revenues	3,500	4,000	3,865	(135)
Total revenues	127,900	147,078	148,909	1,831
Expenditures				
Current				
Recreation and cultural	152,500	166,478	172,567	(6,089)
Total expenditures	152,500	166,478	172,567	(6,089)
Excess of revenues over (under) expenditures	(24,600)	(19,400)	(23,658)	(4,258)
Other financing sources (uses)				
Transfers in	24,600	-	-	-
Total other financing sources (uses)	24,600	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	-	(19,400)	(23,658)	(4,258)
Fund Balance, July 1	126,921	126,921	126,921	-
Fund Balance, June 30	<u>\$102,321</u>	<u>\$107,521</u>	<u>\$103,263</u>	<u>(\$4,258)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Economic Development Fund
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	\$300	\$300	\$225	(\$75)
Other revenues	<u>6,600</u>	<u>1,650</u>	<u>1,650</u>	<u>-</u>
Total revenues	6,900	1,950	1,875	(75)
Expenditures				
Current				
General government	<u>-</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>
Excess of revenues over (under) expenditures	6,900	(1,550)	(1,625)	(75)
Fund Balance, July 1	<u>31,444</u>	<u>31,444</u>	<u>31,444</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$38,344</u></u>	<u><u>\$29,894</u></u>	<u><u>\$29,819</u></u>	<u><u>(\$75)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Fire Operating Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Federal grants	-	\$42,706	\$42,706	-
State grants	-	3,000	3,000	-
Charges for services	\$95,470	88,485	88,485	-
Interest and rentals	-	-	1,933	1,933
Other revenues	-	-	6,214	6,214
Total revenues	95,470	134,191	142,338	8,147
Expenditures				
Current				
Public safety	114,364	130,530	130,205	325
Capital outlay	-	29,540	35,905	(6,365)
Total expenditures	114,364	160,070	166,110	(6,040)
Excess of revenues over (under) expenditures	(18,894)	(25,879)	(23,772)	2,107
Other financing sources (uses)				
Transfers in	55,803	55,803	55,803	-
Transfers out	(36,909)	(36,909)	(36,909)	-
Total other financing sources (uses)	18,894	18,894	18,894	-
Excess of revenues and other sources over (under) expenditures and other uses	-	(6,985)	(4,878)	2,107
Fund Balance, July 1	51,875	51,875	51,875	-
Fund Balance, June 30	<u>\$51,875</u>	<u>\$44,890</u>	<u>\$46,997</u>	<u>\$2,107</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Gibbs Memorial Fund
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	<u>\$2,500</u>	<u>\$2,500</u>	<u>\$4,543</u>	<u>\$2,043</u>
Total revenues	2,500	2,500	4,543	2,043
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	2,500	2,500	4,543	2,043
Fund Balance, July 1	<u>\$227,468</u>	<u>\$227,468</u>	<u>227,468</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$229,968</u></u>	<u><u>\$229,968</u></u>	<u><u>\$232,011</u></u>	<u><u>\$2,043</u></u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUNDS					
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Assets						
Cash and cash equivalents	\$14,150	\$38,967	\$32,865	\$67,038	\$227	\$125
Investments	-	-	-	-	-	-
Due from other governments	-	5,098	-	-	-	-
Total assets	\$14,150	\$44,065	\$32,865	\$67,038	\$227	\$125
Liabilities and fund equity						
Accounts payable	\$2,389	\$266	-	-	-	-
Accrued liabilities	1,234	-	-	-	-	-
Due to other funds	-	10,764	-	-	-	-
Total liabilities	3,623	11,030	-	-	-	-
Fund balance						
Unreserved, undesignated	10,527	33,035	32,865	\$67,038	\$227	\$125
Total fund equity	10,527	33,035	32,865	67,038	227	125
Total liabilities and fund equity	\$14,150	\$44,065	\$32,865	\$67,038	\$227	\$125

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Drug Law Enforcement	Police Education & Training	Woodland Park Enhancement	Cemetery Perpetual Care	Totals	
Assets						
Cash and cash equivalents	\$1,120	\$3,269	-	\$23,224	\$180,985	
Investments	-	-	-	-	-	
Due from other governments	-	-	-	-	5,098	
Total assets	\$1,120	\$3,269	-	\$23,224	\$186,083	
Liabilities and fund equity						
Accounts payable	-	-	-	-	2,655	
Accrued liabilities	-	-	-	-	1,234	
Due to other funds	-	-	-	-	10,764	
Total liabilities	-	-	-	-	14,653	
Fund balance						
Reserved for perpetual care	-	-	-	\$23,224	23,224	
Unreserved, undesignated	\$1,120	\$3,269	-	-	148,206	
Total fund equity	1,120	3,269	-	23,224	171,430	
Total liabilities and fund equity	\$1,120	\$3,269	-	\$23,224	\$186,083	

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2006

	SPECIAL REVENUE FUNDS					
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Revenues						
Federal grants	-	-	-	-	-	-
State grants	-	-	-	-	-	-
Charges for services	\$17,797	\$28,806	\$6,790	-	-	-
Interest and rentals	716	1,577	542	\$578	-	-
Other revenues	-	1,145	-	-	-	-
Total revenues	18,513	31,528	7,332	578	-	-
Expenditures						
Current						
General government	55,431	-	-	-	-	-
Public safety	-	46,891	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	16,909	-	-
Total expenditures	55,431	46,891	-	16,909	-	-
Excess of revenues over (under) expenditures	(36,918)	(15,363)	7,332	(16,331)	-	-
Other financing sources (uses)						
Transfers in	46,098	29,805	-	40,409	-	-
Transfers out	-	(3,500)	(10,000)	-	-	-
Total other financing sources (uses)	46,098	26,305	(10,000)	40,409	-	-
Excess of revenues and other sources over (under) expenditures and other uses	9,180	10,942	(2,668)	24,078	-	-
Fund Balance, July 1	1,347	22,093	35,533	42,960	\$227	\$125
Fund Balance, June 30	\$10,527	\$33,035	\$32,865	\$67,038	\$227	\$125

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2006

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Drug Law Enforcement	Police Education & Training	Woodland Park Enhancement	Cemetery Perpetual Care		Totals
Revenues						
Federal grants	-	-	-	-	-	-
Slate grants	-	-	-	-	-	-
Charges for services	-	-	-	-	\$53,393	\$53,393
Interest and rentals	-	-	-	\$598	4,011	4,011
Other revenues	-	-	-	325	1,470	1,470
Total revenues	-	-	-	923	58,874	58,874
Expenditures						
Current						
General government	-	-	-	-	55,431	55,431
Public safety	-	\$1,042	-	-	47,933	47,933
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	16,909	16,909
Total expenditures	-	1,042	-	-	120,273	120,273
Excess of revenues over (under) expenditures	-	(1,042)	-	923	(61,399)	(61,399)
Other financing sources (uses)						
Transfers in	-	-	-	-	116,312	116,312
Transfers out	-	-	(\$3,498)	(598)	(17,596)	(17,596)
Total other financing sources (uses)	-	-	(3,498)	(598)	98,716	98,716
Excess of revenues and other sources over (under) expenditures and other uses	-	(1,042)	(3,498)	325	37,317	37,317
Fund Balance, July 1	\$1,120	4,311	3,498	22,899	134,113	134,113
Fund Balance, June 30	\$1,120	\$3,269	-	\$23,224	\$171,430	\$171,430

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Council
City of Ithaca
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely present component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City in a separate letter dated September 7, 2006.

This report is intended solely for the information of the audit committee, management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 7, 2006



Management Letter

City of Ithaca
Ithaca, Michigan

In planning and performing our audit of the financial statements of the City of Ithaca for the fiscal year ended June 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated September 7, 2006 on the financial statements of the City of Ithaca.

Sincerely,

Roslund, Prestage & Co, PC
Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 7, 2006

Provide Health Savings Accounts

Due to exploding costs of providing health insurance, we believe the City could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,050 for single coverage and \$2,100 for family coverage. The contribution is limited to the lesser of the insurance deductible amount or amounts stated in IRS Regulations \$2,700 for single coverage or \$5,450 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The City may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

Capital Assets

The City's accounting system includes a capital asset module that documents the details of their capital assets, including a description of the asset, date purchased, cost, depreciation expense, and net book value. Periodically, we recommend management to reconcile the actual fixed assets on site to the capital asset listings.

Approve Journal Entries

We recommend the adoption of a policy whereby all journal entries will be approved by a member of management independent of the individuals who prepare the journal entries. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility. Additionally, all journal entries should be accompanied by full explanation and by reference to adequate supporting data.